

**STATEMENT OF ARNE L. CHRISTENSON
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**BEFORE THE HOUSE ENERGY & COMMERCE SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS**

**DELETING COMMERCIAL CHILD PORNOGRAPHY SITES FROM THE INTERNET:
THE U.S. FINANCIAL INDUSTRY'S EFFORTS TO COMBAT THIS PROBLEM**

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Chairman Whitfield, Ranking Member Stupak, distinguished members of the Subcommittee, my name is Arne Christenson, and I am a senior vice president at American Express responsible for Federal Government Affairs. I also serve as our company's representative on the Financial Coalition Against Child Pornography.

American Express Company was founded in 1850 and is today a diversified worldwide travel, network and financial services provider. We are leaders in charge and credit cards, Travelers Cheques, travel, network services and international banking.¹ I appreciate the opportunity to testify today about the steps American Express is taking to prevent its Cards from being used to purchase child pornography on the Internet.

As we all know, the Internet has been an engine for economic growth, enabling millions of small and large businesses to flourish. Much of that growth has been fueled by payment cards, which account for over 80% of all Internet purchases.² While the Internet offers great opportunity for legitimate businesses, it can also serve as a source of funding for an illegal and pernicious industry like child pornography. At American Express, we are focused on doing our part to block such funding.

My testimony today will describe American Express' business model, which differs in significant ways from the other major card networks. It will list the steps American Express has taken to ensure that its network is not used to process payments to purchase child pornography. Finally, it will outline what we are doing to focus even more intensely on combating this evil,

¹American Express had total charge volume on our network of \$484.4 billion in 2005.

²2005/2006 *Study of Consumer Payment Preferences* by the American Bankers Association and Dove Consulting. Together with P2P Services, which are often directly tied to credit or debit cards, 89% of Internet purchases are facilitated through payment cards.

through enhancements in our own policies and through our involvement in the Financial Coalition Against Child Pornography.

Background

American Express operates what is often referred to as a “closed-loop” network. We issue charge and credit cards to our customers, and we have the direct relationship with millions of merchants who accept American Express Cards. We also operate a Global Network Services business, in which we partner with select financial institutions in the U.S. and abroad who issue payment cards on our network.

Our model can be distinguished from an open network arrangement, such as Visa or MasterCard, where the companies process transactions and serve as the connecting point between the issuing bank, which has a relationship with the cardholder, and the acquiring bank, which has a relationship with the merchant. At American Express, all these functions take place within one company: we issue cards to customers, operate the network, and manage the relationship with merchants who accept our Cards.

Consequently, our work to combat child pornography involves activities that might be undertaken by two or three different entities in the open network model. First, we are responsible for screening merchants who wish to accept American Express Cards, as an acquiring bank would do in the open network model. Second, we track activity on our network constantly to ensure that merchants are not violating our policies, as Visa and MasterCard do. Finally, we work with law enforcement to respond to any potential illegal activity on our network, whether that activity involves cardholders, merchants, or both.

In combating child pornography on the Internet, American Express follows a strategy that begins with a comprehensive review when we sign up a new merchant. It continues with

ongoing monitoring of merchant transactions and a constant search of the Internet to ensure that merchants on our network are not attempting to sell child pornography in violation of their contract with us. And it involves our active participation in the Financial Coalition Against Child Pornography, to ensure that we can coordinate effectively with law enforcement and others in the industry.

Merchant Acquisition Due Diligence

American Express either restricts or prohibits the signing of merchants that fall within sixteen general categories, including merchants in illegal or high risk industries. As part of our screening process, we first work to ensure that a merchant who wishes to accept American Express Cards is not linked to any illegal activities, including child pornography. In addition, since 2000 the Company also has prohibited the acceptance of American Express Cards for the purchase of pornographic content on the Internet more generally. As I will detail later, our efforts in fighting child pornography have taken place within the context of this broader policy.

When a merchant wants to begin accepting the American Express Card, we conduct a series of checks to ensure the merchant is not in violation of our policies. For instance, as part of our due diligence practices, we screen new merchants through a derogatory matching process to determine whether we have canceled the merchant in the past for any reason. This search occurs real-time as part of the application process. We use the MasterCard MATCH system to determine whether any other acquirer has canceled the merchant for any reason. We also check new merchants against the U.S. Department of Treasury's Office of Foreign Assets Control (OFAC) lists to ensure that we are not signing up merchants who may be subject to U.S. sanctions or who may be operating in a prohibited country.

We then perform further due diligence on a risk-assessed basis. We conduct a financial background check, and we specifically review a merchant's website if the application raises concerns. Merchants that we view as a higher risk or that require additional screening are routed to an internal contract review team for further investigation.

American Express maintains a uniform policy for access to our network, and we have the right to terminate a merchant at any time. This enables us to communicate our policies in a clear and consistent way to our merchants, and if we suspect they are violating our policies, to take immediate action.

Ongoing Monitoring for Prohibited Industries

In addition to a review at the time of application, we continue to monitor merchants for suspicious activity after they have been approved to process transactions on our network.

American Express continually monitors merchant submissions to identify changes in submission patterns, looking for suspicious activity or patterns that are not consistent with the merchant's identified industry. For instance, if a merchant had a long period of inactivity, followed by a sudden surge in charge volume, this could trigger a review. If a store began having a high number of submissions through remote (i.e., over the Internet) sales, after signing as a "brick and mortar" merchant, this also could trigger a review.

Through various monitoring processes and the direct relationships with merchants, American Express is able to identify and investigate any activity that differs in an important way from what would be customary or expected for a particular merchant or industry. In doing so, we compare things like a merchant's overall charge volume and average transaction size to the normal patterns in an industry. This helps us detect merchants involved in businesses that are different than those they identified at the time of their signing.

In the case of Internet merchants, American Express conducts ongoing monitoring of the worldwide web to detect illicit activity. Through a constant sweep of the web and a regular review by our own internal team, we search the Internet for websites that advertise acceptance of the American Express Card and operate in industries where we have prohibitions or restrictions on the use of our Cards.

American Express has contracted with an investigative firm that specializes in searching the web to detect any sites that may reveal a violation of our policies. This search employs web crawlers that are designed to imitate an individual, clicking on links to move deeper into a website, as well as those that do a more general review. These web crawlers review millions of web pages each day and specifically look for sites that contain objectionable content and that purport to accept the American Express Card. In the case of child pornography, this search includes proprietary technology to detect child pornography websites.

Following a search of the web, the results are combined and then scored using advanced algorithms to identify those sites most likely to be in violation of our policies. Our vendor then downloads sites that may be in violation of our policies and inspects them individually before sending a comprehensive report to our internal merchant risk operating team. This team then reviews the report and investigates further. Following this review, we cancel any merchant we identify that is in violation of our policies.

Our ongoing search of the web regularly discovers pornographic sites that mention American Express; a small number of those sites could have links to child pornography sites. In most cases, these websites include references to American Express but are not actually connected to one of our merchants and cannot process payments on our network. In these cases, we work to determine the operator of the website so that we can issue cease and desist notices that

demand the removal of any reference to American Express, which represents brand infringement. In instances where we identify an actual merchant violating our policies, we terminate the merchant.

As one example, last year we discovered twelve websites that appeared to be questionable child modeling sites based in South America, portraying pictures of children under the age of 18 in provocative clothing. These sites offered visitors the opportunity to purchase a subscription, but it did not appear that any of them accepted American Express Cards as a payment option. We have since referred these sites to NCMEC for further investigation to see if they might be linked to other child pornography sites reported to the Center.

By every indication, our policies and the steps we have taken to ensure compliance with those policies have prevented any extensive use of our network to finance child pornography. In cases where we have found a website that could be linked to child pornography, we have terminated the merchant. However, the vast majority of merchant cancellations in this area stem from violations of our broader policy banning the use of our Card for the purchase of Internet pornography.

The statistics from the National Center for Missing and Exploited Children are consistent with these findings. In 2005, a very small percentage of all commercial child pornography referrals received by NCMEC contained references to American Express. Our own experience indicates that very few of the sites that mention American Express are authorized to do so and actually connect to a merchant on our network.

For instance, this summer NCMEC provided us with twenty-four referrals that included references to American Express. Removing duplicate referrals of the same website, there were a total of nineteen unique sites, of which nine sites were no longer accessible. In reviewing the

remaining sites, another nine sites either did not link to a payment page or purported to accept our Card but did not in fact offer American Express as a payment option. After completing our investigation of these twenty four reports, we determined that only one site involved an American Express merchant. We immediately terminated that merchant and notified law enforcement as well as NCMEC.

While our research shows that very few child pornography sites take our Card, it appears that they often promote payment by credit cards to make the site appear more legitimate. It is extremely rare that a child pornography website will offer direct acceptance of credit card payments, but there is a growing trend toward steering visitors of these sites to various alternative payment methods. Operators of child pornography sites are developing increasingly complicated methods to collect payment, including the use of third-party payment providers to mask their activities.

While our restrictive rules have been broadly effective, we are focused on two areas where we can do more, and we have adjusted our policies and procedures accordingly. First, we have changed our process for monitoring the Internet. In the past our search for child pornography sites took place as part of our broader efforts to enforce our Internet pornography policy, and there was not always a clear differentiation between the two in our review and reporting. We now separately track and, if necessary, refer to law enforcement any sites that could include child pornography.

Second, through our work with the Financial Coalition Against Child Pornography, we have instituted a more effective, documented and ongoing consultation with law enforcement on child pornography issues.

Financial Coalition Against Child Pornography

American Express is proud to be a member with other financial services firms in the Financial Coalition against Child Pornography led by the National and International Centers for Missing and Exploited Children. We are pleased to join with others in the payments industry, Internet service providers, and law enforcement in this effort to end commercial child pornography. This cooperation between the public and private sector is a critical part of a comprehensive strategy to eradicate the evil of child pornography.

We believe one of the most important aspects of the coalition is the opportunity to deepen our collaboration with our peers in the industry, law enforcement, and experts at the National Center for Missing and Exploited Children. The Financial Coalition has established a formal process for reporting suspected child pornography websites, with the National Center for Missing and Exploited Children serving as a global clearinghouse. The work of the Center will also institutionalize the cooperation between law enforcement and financial services firms in this ongoing battle. This closer cooperation with law enforcement will have a very positive impact on our effectiveness and, I believe, the effectiveness of the industry as a whole in combating child pornography.

In closing, I want to applaud the members of this committee and your staff for drawing attention to this critical concern. American Express is committed to working in partnership with law enforcement and others in the industry to deny child pornographers access to the payment system, and we appreciate your focus on this important issue. Thank you for the opportunity to testify today, and I would be happy to answer any questions you may have.